

Program Summary
Department of Commerce
Commerce and Economic Development Commission (CEDC) Fund

Program Overview

The Department of Commerce administers the Commerce and Economic Development Commission (CEDC) Fund. The CEDC was established in 1989 as the state's economic policy and planning board. The commission is responsible for developing the state's 10-year economic strategy. In addition, the commission also administers the CEDC Fund, which provides financial assistance to support the state's economic development efforts.

Commerce states the overall goal of the commission is to "Develop comprehensive long-range strategic economic plans for this state, assist the department in the coordination of the independent efforts of all state and local agencies involved in economic planning and economic development, and to either directly or indirectly, provide financial assistance to businesses locating or expanding within this state".

The CEDC Fund is partially-appropriated, meaning a portion of the fund's expenditures are controlled by the Legislature. In FY 2006, this amount is \$2,970,000. The majority of these monies are used to fund the following programs in FY 2006:

- \$966,800 for International Trade Offices, utilizing 6 FTE Positions. Monies are used to establish business incentives and assistance procedures to retain, expand, or locate businesses and other qualified projects in the state.
- \$659,200 for Advertising and Promotion. Monies are used for advertising and promoting the department's various programs through magazine ads, direct mail, and special events.
- \$200,000 for the National Law Center/Free Trade. The National Law Center for Inter-American Free Trade is a research and educational center which seeks to identify and eliminate mechanical and structural obstacles to the free movement of goods and services among Mexico, Canada, and the United States.
- \$130,000 for Main Street. This line item provides funding for the historical preservation or refurbishment of downtown areas, or "main streets," in selected rural Arizona communities.

The non-appropriated portion of the CEDC Fund is used for business attraction in the form of loans and grants. The majority of the monies distributed to businesses have been in the form of grants rather than loans.

Statute requires that expenditures from the CEDC Fund be allocated as follows:

- A minimum of 25% of the monies disbursed from the fund shall be used to provide assistance, either directly or indirectly, for businesses or other qualified projects located in rural areas of the state. The Department of Commerce states that historically, the monies disbursed for rural businesses have been approximately 28% since 1989.
- A minimum of 25% of the monies shall be used for businesses employing less than 100 employees, until April 1 of each fiscal year. The department states that historically, the monies disbursed for small businesses have been approximately 28% since 1989.
- A minimum of 15% of the assistance awarded shall be awarded, either directly or indirectly, to businesses or other qualified projects located in the economically disadvantaged areas of this state. In conjunction with the department, the commission shall determine which areas of this state are economically disadvantaged. The department states that historically the monies disbursed to businesses or other qualified projects located in the economically disadvantaged areas of this state have been approximately 27% since 1989.

Program Funding

The CEDC Fund receives funding from at least 21.5% of the revenues from 2 of the Arizona Lottery's scratch games, in addition to securities and investment management fees paid by private businesses. In FY 2006, expenditures from the CEDC Fund are expected to be \$4,194,300. The FY 2006 expenditure level represents a decrease of 4.9% from FY 2001 levels. *Table 1* displays historical expenditures from the CEDC Fund, using data from FY 2001, FY 2005, and FY 2006.

Table 1
CEDC Fund Expenditure History

<u>Fund</u>	<u>FY 2001</u>	<u>FY 2005</u>	<u>FY 2006</u>
CEDC	\$4,400,000	\$4,170,800	\$4,194,300
Total	\$4,400,000	\$4,170,800	\$4,194,300

Table 2**Historical Lottery Revenue Received by CEDC Fund**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
CEDC	\$2,370,400	\$3,168,200	\$2,225,700	\$2,733,600	\$2,674,500	\$2,738,060

CEDC Fund Potential Insolvency Issue

The Arizona Department of Commerce has raised concerns over the long-term solvency of the CEDC Fund. In FY 2005, the Department requested the revenue from 2 of the Arizona Lottery's scratch games be increased to 32.5%, a percentage that was previously in the CEDC Fund statutes. These revenues constitute the majority of the source of the CEDC Fund. The department also requested that the appropriated portion of the CEDC Fund be shifted to the General Fund. These 2 changes would cost the General Fund approximately \$5.3 million.

The department estimates that the CEDC Fund could be insolvent by FY 2007. This claim rests on the assumption that revenues from the 2 scratch games are estimated to be \$2.1 million in FY 2006 and FY 2007. The JLBC forecast for lottery revenues distributed to the CEDC Fund, however, is \$2.9 million in FY 2006 and FY 2007. Between FY 2000 and FY 2004, the average annual revenue from the 2 scratch games has been \$2.6 million, making their forecast of \$2.1 million seem unlikely. *Table 2* displays historical lottery revenue received by the CEDC Fund.

In FY 2006, appropriations from the CEDC Fund are less than revenues received from the fund. If revenues and expenditures continue to follow historical trends, the fund would remain solvent indefinitely. The Department of Commerce should expend less of the non-appropriated part of the fund, so that there would be even less of a chance for it to become insolvent. If the department expends \$1 million, the fund can remain solvent because revenues exceed expenditures. Also, if the department would disburse more monies in the form of loans rather than grants for businesses it would generate more revenue for the fund.

Performance Measures

Table 3 includes the measures the Department of Commerce uses to assess the performance of the CEDC Fund. None of these measures are included in the General Appropriation Act. All of these measures assess process-related issues such as the number of companies recruited to rural locations. These measures do not necessarily measure the effectiveness of the programs, but rather serve as an indicator of the level of funding they receive. The department states that their primary goal is to increase per capita income.

Commerce should consider several new performance measures to determine if their economic development attempts in our state are effective: Number of loans vs. grants, % of loans paid back on time, personal income per capita, job growth rate and investment data. The measures would depend on the availability of data, as some of these measures might not be collected in our rural communities. All of these measures could be used to test the effectiveness of the CEDC Fund when compared to historic data from the same communities prior to the attraction and/or retention of businesses by Commerce.

Table 3**CEDC Fund
Performance Measures**

<u>Performance Measure</u>	<u>FY 2004 Actual</u>	<u>FY 2006 Estimate</u>
Number of companies recruited to rural locations	11	16
Locate/expansion of capital investment (in millions)	256	550
Average hourly wage rate per job	\$16.76	\$18.50
Jobs created by companies utilizing Commerce business development programs	7,627	10,500
Number of new company relocations and expansions	41	61